At this point there is no reason to believe that the drought is over going into 2012. However, unexpected and welcome moisture in late 2011 reminds us that it could be. It is just as important to plan ahead for drought recovery as it is to plan ahead for managing through a drought. That is especially true given the unique current market conditions of the cattle industry with respect to both short run and long run factors. The drought in 2011 in the Southern Plains not only impacted producers in the region directly but also had significant impacts on cattle markets nationally. The recovery for the drought, whenever it happens will likewise have impacts in the broader cattle market.

The drought caused enough additional cow liquidation to push herd inventories to lower levels in 2011. This results in even tighter feeder supplies in 2012 and beyond, from which replacement heifers must be retained in order to rebuild the herd. When recovery commences, breeding females will be in very short supply and very expensive. There will simply not be enough available females to support widespread repopulation in one year. Of course, we won’t actually run out of females; the price will simply get high enough for a period of time to encourage some producers to wait a bit to buy females. Producers should consider a more patient recovery strategy of rebuilding cow herds over a two to four year period. This may be beneficial to promote optimal recovery and healing of pastures but also fit cattle market conditions better. Slower herd rebuilding could leave some additional forage available. That opens the door for other options to complement cow-calf production.

The other major market factor that should be considered is that higher grain prices, which are likely to remain well above long term historical levels, result in more value for forage based gains on feeder cattle. Feedlots, facing high ration costs, have an incentive to purchase heavier feeder animals and reduce feed use at the feedlot level. This change in feeder cattle demand will be even more pronounced in two or three years when feeder supplies begin to grow. Thus, the value of additional pounds on feeder cattle is higher now than ever before. Producers with forage have more flexibility now to mix and match cow-calf and stocker enterprises. For producers with no interest in or experience with purchased stockers, this can be accomplished by retaining weaned calves in some sort of stocker or backgrounding program. The value of post-weaning gains is likely to be higher from now on. Purchased stockers can provide even more flexibility to seasonally utilize excess forages. Permanently higher grain prices makes forage worth more for both stocker production and for cow-calf production. Eventually, in 5-6 years, cattle numbers could increase to a point where the value for cow-calf production is tempered in a cyclical sense but the value of stocker production is likely to be permanently higher.

The next few years will be characterized generally by record high cattle prices which imply considerable profit potential for cow-calf producers. However, cost management will be paramount and especially the high cost of replacing females must be planned and monitored, particularly for the short run financial implications but also for the long run profitability implications. Forage owners will see generally more potential value for forage based cattle production whether in weaned calf sales,
Unfavorable weather conditions during the past year have resulted in the partial or complete liquidation of numerous cow herds in Oklahoma. When forage conditions improve, livestock producers may wish to get back in the game and rebuild their herds. Capital purchases that involve breeding stock are difficult to make because in nearly all cases, the expenditure is made upfront but the anticipated benefits from calf production accrue over the cow’s productive life. Because replacements are expected to be costly in the future, a sound evaluation of cow purchase price is vitally important to the long-run financial viability of the business. Here, we discuss a few factors that affect the cow purchase decision and review a spreadsheet tool, the Cow Bid Price Estimate Calculator, that can assist in evaluating the profitability of a specific cow purchase price.

Factors That Impact the Cow Bid Price

The Cow Bid Price Estimate Calculator (NPV) uses the Net Present Value method of capital investment analysis. This analysis explicitly considers the time value of money through discounting future net cash flows by a minimum acceptable annual rate of return, the discount rate. Think of the discount rate as the risk premium needed to equate the cow purchase with an investment of similar financial uncertainty and rate of return. The investment is judged to be acceptable if the NPV of the cash flow stream exceeds the initial cow purchase price, that is, if the NPV is greater than or equal to zero.

What Can You Afford to Pay for Cows?

Roger Sahs, Extension Assistant, and Damona Doye, OSU Extension Economist and Sarkeys Distinguished Professor

What’s Next for Beef Cattle Producers?

After the Drought: What’s Next for Beef Cattle Producers?(cont.)
What Can You Afford to Pay for Cows?(cont.)

While it is impossible to know future prices and costs with certainty, using the best available information is important. Factors that impact future net cash flows are anticipated calf revenues throughout the cow’s productive life (which depend on weaning weights and prices) along with the annual expense of maintaining the cow excluding depreciation and interest. The cow’s salvage value is also a factor and is based on expected sales weight and price. Debt financing terms can also be included. The cash flow stream is not adjusted for income taxes; therefore, the analysis is on a pre-tax basis.

Results

In the example shown, a cow/calf pair is purchased for $2,000 (thus, the 100% calf cow crop in Year 1). On average over the cow’s eight years of calf production, weaned steer calves are expected to weigh 550 pounds and heifer calves 500 pounds. Note the historically high calf-prices used throughout the period. Cow operating costs are specified at $600 per year. Here, the NPV of the net cash returns over the cow’s productive life is positive, indicating that the $2,000 cow/calf pair purchase price is acceptable and represents a good investment. The analysis includes an Internal Rate of Return (IRR) calculation and in the example, a 4.1% return is calculated for the $2,000 originally invested. The IRR is the discount rate that produces a NPV equal to zero. In the example shown, the IRR on the cow investment exceeds the discount rate desired by the user and verifies that the purchase price is not too high. In general investments with an IRR that are equal to or greater than the discount rate specified are accepted and those with negative IRRs are rejected.

NPV and IRR are very sensitive to the expected cow operating cost per year. In the earlier example, cow costs were assumed to be $600 per cow annually over the cow’s productive life. Lower cost production with $550 annual maintenance costs would lead to a NPV of $418 compared to $67 with higher cost production. The table below demonstrates NPV sensitivity associated with several purchase price and production cost scenarios. Producers should use their farm records as a basis for cost and production values and evaluate a range of scenarios to assess possible rates.

Note that this tool does not provide insight on whether debt service obligations associated with cow repurchase might jeopardize the farm/ranch family’s liquidity situation and risk-bearing ability during the repayment period. Using different values for the terms demonstrates this. For the $2,000 cow/calf purchase price and a 6% loan, the NPV is approximately $107 for a 3 year loan, $87 for a 4 year loan and $67 for a five year loan with debt service requirements of $524, $404 and $332 respectively. Thus, while extending the loan period may make loan repayment more feasible because the annual payment is lower, the additional interest paid over the life of the loan lowers the NPV of the investment. Producers will need to manage cash very carefully and/or have reasonable credit terms to meet their financing needs.

Summary

Trying to evaluate projected future income and cash flows associated with cow repurchase decisions can be complicated. The Cow Bid Price Estimate Calculator, a free spreadsheet from the Agricultural Economics Extension website http://www.agecon.okstate.edu/extension/ or beefextension.com website is a decision tool designed to help address cow purchase decisions under a variety of economic scenarios. The users should evaluate expectations carefully, using a range of production and economic parameters. The spreadsheet will help producers make the informed decisions about reinvesting in cows following drought induced liquidations. Careful analysis is needed as the opportunities and risks may be great.

<table>
<thead>
<tr>
<th>Cow/calf Purchase Price</th>
<th>Cow Operating Cost per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$550</td>
<td>$600</td>
</tr>
<tr>
<td>$650</td>
<td>($19)</td>
</tr>
<tr>
<td>$1,750</td>
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<tr>
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<tr>
<td>$2,250</td>
<td>$152</td>
</tr>
<tr>
<td>($199)</td>
<td></td>
</tr>
</tbody>
</table>
Some producers have reached the point where they are not willing to rebuild. Instead, they’ve chosen to transition away from the farm into retirement or an off-farm job. To facilitate transitioning the management and ownership of a family farm, careful planning is required. The goals of transition planning should be to 1) assure that the exiting generation has sufficient after-tax income to meet their retirement goals and 2) assure that the entering generation has sufficient after-tax income and cash flow to meet their needs.

Farm transition plans should be written. All parties should clearly articulate their goals and expectations. If all parties have express reasonable and obtainable goals, a transition plan might be feasible. However, transition plans often fail because at least one party’s expectations are not being met, but usually those expectations have not been clearly articulated. For example, an incoming partner might expect to be able to attend their children’s school and other functions, while the outgoing partner expects everyone to continue working until late in the evening. Unless both parties articulate these expectations and mutually agree on how to resolve conflicting expectations, the transition will likely fail.

There are several methods to arrange a transition. Transitions usually start with some arrangement to farming together. One approach has the retiring generation hiring an incoming farmer for wages. The incoming farmer management skills can be developed and tested, while the ability of the retiring generation to give up control can be tested. Over a period of time, the incoming farmer purchases (or works for) percentages of the business. A second approach is to share labor and machinery but each party has their own business. The incoming producer will typically trade labor for machinery and rent land and breeding stock. Over time, the incoming producer purchases machinery and breeding stock. A third approach commonly used is multi-ownership farming. Here, the incoming producer buys into the business and increases ownership percentage over time.

Regardless of transition approach, a business organization will need to be determined. Partnerships, both formal and informal, are common. A formal partnership is recommended. Partnerships are not taxable entities; profits and losses pass to the individual owners. A note of caution, each partner is liable for the debts of the partnership.

An alternative organization is a corporation, an S-corp, C-corp or LLC. Each has tax and transferability consequences. For example, an S-corp is not a taxable entity, where a C-corp is taxable. An LLC can be either a taxable entity or a non-tax entity, depending on its operating agreement.

Regardless of transition arrangement and organization, there needs to be a plan to transfer assets. A typical transition involves some combination of assets sales, gifting and leasing. Asset sales typically have tax consequences, including depreciation recapture and capital gains. Assets can be sold over several years to manage tax consequences. Assets can be gifted up $13,000 per individual ($26,000 per couple) without tax obligation for the individual gifting cash. Any amount over $13,000 in a year counts against his/her $5 million lift time exclusion. Leasing spreads income over several years and reduces capital needs of the incoming producer.

Using a combination of this asset transfer methods, the capital requirements of the incoming producing can be managed, tax consequences for the exiting generation can be reduced and income levels for both parties be assured.

Successful transitions can be facilitated using transition planning. Legal and tax professionals should be part of the planning. Your Cooperative Extension Service educators can help direct you to additional resources to aid your planning.

Wheat Stocker Decision Tools
Eric DeVuyst, Associate Professor & Farm Management Specialist

Due to the drought, stocker producers across the state did not expect to have access to wheat pasture for this winter’s grazing period. However, due to favorable fall growing conditions, wheat pastures are in better shape than anticipated. So, it is a good time to remind our readers of wheat stocker decision tools available free of charge from OSU Cooperative Extension Service. Two tools designed to help with calf purchase decisions are the Wheat Stocker Budgeting Tool (http://agecon.okstate.edu/faculty/publications/3394.xlsm) and the Wheat Stocker Purchase Decision Tool (http://agecon.okstate.edu/faculty/publications/3416.xlsm). A third tool is available to analyze the economics of grazing beyond first hollow stem, Graze Out Decision Tool (http://agecon.okstate.edu/faculty/publications/3443.xlsm).
Francie Tolle, executive director for Oklahoma Farm Service Agency (FSA), announced that that farmers and ranchers in Oklahoma now have a more efficient, timely option for receiving important FSA program eligibility requirements, deadlines and related information.

"FSA is now offering free online communications through our GovDelivery electronic news service," said Tolle. "News will now be sent via e-mail right to your home or farm office or to your Smartphone – allowing you to receive immediate notification of farm program news that is pertinent to your agricultural operation."

Through FSA’s GovDelivery electronic news service, producers can establish subscriber preferences by choosing to receive federal farm program information by topic, by state and/or by county. Producers can select as many subscriber options as they want, which allows producers who farm in multiple counties or across state lines to receive updates from each county in which they operate or have an interest.

According to Tolle, GovDelivery is a one-stop shop for the most up-to-date USDA program information. If, after using this online system, producers no longer wish to receive hardcopy newsletters from their local county office, they should contact the office and make their preferences known.

"GovDelivery will enable FSA to keep producers better informed and allow us to conserve resources and reduce taxpayer expenses associated with the preparation, printing and distribution of hardcopy newsletters," said Tolle.

To begin using GovDelivery, subscribe online by visiting their website (http://oklahomafarmreport.com/wire/news/2011/11/02212_FSAEmail11292011_111923.php) or contact your local office for subscription assistance. USDA is an equal opportunity employer, provider and lender.

The practice of self-feeding cattle provides opportunities to supply nutrients without the increases in labor and equipment cost associated with regular feeding. Quick calculations of fuel ($3.00 gallon), vehicle depreciation ($0.25/mile) and labor cost ($9.00/hour) for feeding a group of 40 head of cattle that are 10 miles away from your home equates to a cost of approximately $0.50 per head per visit. These costs and limited labor availability have enhanced use of self-feeders with combinations of physical restrictions and inclusions of dietary ingredients such as salt to limit feed consumption. The concern with these types of feeding systems has always been providing proper amounts of supplement, uniformity of consumption across the herd, and efficiency of feed usage. Of the self-feeding situations, creep feeding has received the most research. A summary of 31 studies showed that, on average, creep feeding increases calf daily gains 0.38 pound per day at a feed conversion rate of 9 pounds of feed to 1 pound of gain. At current feed cost, this represents a feed only cost of gain around $1.45 per pound. A study recently completed at OSU has indicated that feed disappearance and consequently efficiency of calculated feed conversion may be greatly influenced by wild animals. With a standard creep feeder, feed disappearance was at a rate of 2.1 pounds per calf per day which would be slightly below the average of the 31 study summary. Feed disappearance from a creep feeder being developed to prevent access from wild animals was at a rate of 0.6 pounds per calf per day. This was in an area around Stillwater where we anticipated minimal impact of wild animals assuming hogs were the primary problem for feeders. Video surveillance indicated that raccoons and birds were regularly consuming feed out of the standard feeders. In one video, a single raccoon was able to dig out approximately 150 pounds of feed onto the ground in a single visit lasting slightly longer than an hour. This problem is only confounded in areas that have wild hog populations that have been noted to empty feeders within a few days. If tracks or waste of wild animals are present around feeders, low cost game cameras may be used to determine the extent of a problem.

If wild hogs appear to be a significant problem, the Oklahoma Department of Agriculture, Food and Forestry has recently developed a web site (http://www.ag.ok.gov/ais/feralswine.htm) and directories to pair land owners with hog hunters and trappers. Currently, the directory has over 500 individuals interested in hunting listed by county. Land owners may view the listings and contact hunters without being placed on the landowner list. Assuming the difference in feed disappearance in our study was solely related to wild animal usage, approximately 2/3 of our feed cost was expended on wild animals.
Farm business managers should consider putting the following activities on their management calendar for December and January.


- Begin closing out the farm books by collecting information for the farm net worth statement. Around the first of the year when you need to walk off all that holiday food, take a notepad or try out the new camera and/or cell phone as you walk around the farm. Record the number and approximate value of all the farm assets (cattle, tractors, machinery, buildings, inventories of grains and feedstuffs, chemicals, etc.) that can be organized on the asset side of the balance sheet. Be sure to save the notes, recording, or, better yet, place the notes or recording in a safe location (safety deposit box or fireproof box) for possible insurance claims. Review your end-of-year bank statements or contact your lender for current listings for all personal and business liabilities. You now have all the information you need to complete a market value net worth statement.

- If you are using cash accounting methods for tax purposes (computerized business records or hand-kept), you need to make sure your actual records match the deposits and check dates for all claimed income and expenses. A quick check of the records will help address any problems that might arise at tax time.

- Plan to get all tax records summarized and to your tax advisor by February 1, 2012.

- Use 2011 financial and production records to develop projected budgets, cash flow, and income statements for 2012. If you are using Quicken or QuickBooks, use the automated feature to create a budget based on last year as a starting place to create a detailed budget to reflect your expected costs and returns for 2012. Need instructions for using Quicken for farm/ranch records? See [agencon.okstate.edu/quicken](http://agencon.okstate.edu/quicken)

- Depending on the type of farm, begin working on a marketing plan for 2012 by collecting information on prices and world market situations.


- Check on crop insurance policies by visiting the Risk Management Agency website at [http://www.rma.usda.gov/](http://www.rma.usda.gov/) to find an agent and view the multitude of policies (crops, livestock, forages, vegetables, nursery, clams, and more) that are available in your area.

- Close out and summarize livestock and/or crop records for 2011, noting problems that must be addressed when making cropping, feeding, and breeding decisions during 2012. Compare 2011 records to previous years looking for strengths and weaknesses.

- Review 2011’s crop, hay, and livestock records for labor problems, bottlenecks, and down times. Include all employees in spotting and planning to correct labor bottlenecks. Draw up a labor flow chart listing estimated times and identify employees who will be responsible for major tasks. This is very important if you have expanded acreage, livestock numbers, and/or replaced an employee or changed the number of employees.

- Schedule regular meetings with all workers and family members to discuss work activities as you gear up for the spring push. Make sure all workers feel free to suggest ways to improve efficiency. Think about creating an employee handbook for important information on pesticide safety, farm bio-security, and safe operations of machinery and equipment.

- Selective information that might be useful to farmers and their advisors:

  - An article titled “Move Over Brother; the Farmer’s Daughter is Coming Home to the Farm, Too!” by Julia Nolan Woodruff, former OSU Extension Educator, is an additional resource for families planning the transition of their farm business. This article appeared in the October issue of the “Ohio Ag Manager.” [http://ohioagmanager.osu.edu/financial-management/move-over-brother-the-farmer%E2%80%99s-daughter-is-coming-home-to-the-farm-too/](http://ohioagmanager.osu.edu/financial-management/move-over-brother-the-farmer%E2%80%99s-daughter-is-coming-home-to-the-farm-too/).

  - Need help understanding and using financial statements? The Center for Farm Financial Management has
created a new online workshop series to help agricultural producers and/or anyone who works with them to understand and use common financial statements and measures. The website, Interpreting Financial Statements and Measures (IFSaM), is intended to teach producers the basics of interpreting the four major financial statements and the 21 financial measures recommended by the Farm Financial Standards Council. IFSaM is a series of online videos that producers can work through at their own pace. Each session provides benchmarks, based on actual farms, that producers can use to evaluate their own financial position and their financial performance. Case farm examples are used to bring the data to life. There are also optional “test your knowledge” quizzes at the end of each session. In total, there is over 2 ½ hours of information. Best of all, it’s free. This series was created with funding from the North Central Risk Management Education Center. IFSaM is located at http://ifsam.cffm.umn.edu/.

- If you are interested in improving your management skills, take a look at the on-line products and courses from RightRisk. RightRisk is an innovative risk research and education effort to help farmers and ranchers understand and explore risk management decisions and evaluate the effects of those decisions. One product you should view is “Getting on Track: Better Management Through Basic Financial Statements,” a free online course just posted to the RightRisk (http://rightrisk.org/) web site. The course covers:
  ◊ Cash Flow Statements
  ◊ Balance Sheets
  ◊ Income Statements
  ◊ Statement of Owner Equity
  ◊ Where Do I Go From Here?

- A must read for all of us involved in agriculture is the current issue of “Choices,” published by the Agricultural and Applied Economics Association and found at www.choicesmagazine.org/. In this issue, themes include: Critical Issues for Agricultural Cooperatives, Should Soft Drinks Be Taxed More Heavily, and Innovating Policy for Chesapeake Bay Restoration.

Mineral Supplementation for Cattle Grazing Wheat Pasture  
David Lalman, OSU Extension Beef Specialist

In recent years, several experiments have demonstrated that cattle grazing wheat pasture gain faster when a free-choice mineral product is provided. These commercial mineral products can be characterized as high-calcium (16 to 20%), low-phosphorus (3 to 6%) formulations.

In a two year study, Horn et al. (2002) reported increased daily weight gains of .16 (yr 1) and .26 (yr 2) lb by steers given free-choice access to a non-medicated mineral mixture compared with no supplement. Addition of the feed additive, Rumensin® (1620 g per ton) to the non-medicated mineral mixture improved daily gains by .31 (yr 1) and .15 (yr 2) lb per steer.

In another experiment (Fieser et al., 2006) documented an increase in performance of 0.27 lb per day over cattle that were not supplemented. Mineral intake was high, averaging 6.7 ounces per head per day. Similar to the previous work, the addition of Rumensin® further increased ADG by an additional 0.24 lb per day. While Rumensin® increased weight gain, it also moderated mineral consumption with an average daily intake of 2.6 ounces.

At the USDA research station near Woodward, OK Gunter and Combs (2010) reported that cattle supplemented with a commercial mineral product gained 0.5 lb per day faster compared to cattle not receiving a mineral supplement. Mineral consumption averaged 2.6 ounces per head per day.

These experiments demonstrate a consistent improvement in animal performance when a free-choice commercial mineral supplement is provided. It should be noted that in each case, the mineral products provided were formulated specifically for wheat pasture. The addition of the ionophore (feed additive), Rumensin®, increases performance beyond the response that can be attributed to the mineral. Rumensin® has also been shown to reduce the risk of bloat for cattle grazing wheat pasture. However, similar improvements in performance have been observed when the ionophore Bovatec® is incorporated into the mineral mix. Therefore, producers should consider the potential to improve wheat pasture grazing enterprise profitability by providing a mineral supplement and one of these feed additives in the mineral mix.
New/Updated Publications for Beef Producers

CR-205 Oklahoma Farm and Ranch Custom Rates, 2011-2012

If you don’t receive our Farm Management Quick Tips newsletter, take a look at it online at agecon.okstate.edu/quicken/ under Newsletters. The upcoming edition will include articles on Quicken 2012, “Preventing Elder Fraud”, “Who is Going to Fill These Boots”, “The Basics of Investing”, “Income Tax Relief for Drought or Weather-Related Sale of Livestock”, “Five Reasons You Need to Have a Lease” and Schedule F changes. The September edition featured: “Understanding the U.S. Credit Downgrade”, “External Drives as the Modern Digital Backup”, “Disaster Preparation and Recovery Assistance”, “Quicken Records May Simplify the IRS Audit Process”, “Loans and Grants: ODAFF, SARE, FSA” and “Farm Assets Remain a Large Portion of the Operator Household Portfolio”.

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